

What can go right and what can go wrong in property stokvels

Previously a group savings scheme used by likeminded individuals who share the same goals to meet short-term needs, such as buying groceries or school supplies at the end of the year, stokvels in South Africa are fast becoming a way to build wealth and invest in property.



Andrea Tucker, director of MortgageMe

According to recent research by Nedbank, over 11 million South Africans are members of one or many stokvels, of which there are more than 820,000 in existence, holding annual savings in excess of R44bn. Stokvel members need education and guidance on how this non-traditional approach can be used to leverage their collective strength for greater economic benefit, i.e., taking it beyond spending on consumables.

Large corporates are recognising the growth in popularity of stokvels. In fact, FNB recently launched a collective buying home loan scheme, allowing up to 12 people to buy property together. This is a way of generating funds that can be put to better use and for greater benefit.

Andrea Tucker, director of MortgageMe, says that while property stokvels are a good way to enter the property market, she urges consumers to be cautious when signing agreements. “Your home loan application in a stokvel situation is only as good as your worst investor.”

Here are some of the pros and cons of property stokvels:

Pros

- A large percentage of South Africans are excluded from the formal economy, and property stokvels provide a vehicle for low to middle-income families to invest and build wealth through harnessing the power of the collective.
- By pooling financial resources, larger properties can be purchased, and the group can benefit from the

- compounding principle. A deposit of R500,000 will get you a far bigger property than one of R100,000.
- Joining a stokvel encourages saving behaviour through cooperation. By joining and participating, it becomes obligatory to save and make your monthly contribution or else you're excluded from the club. This provides security and protection from circumstances out of one's control.
 - Property stokvels give low-income earners comfort that should something go wrong, like retrenchment, they can possibly avoid losing the roof over their heads by calling on the cooperative power of group savings.
 - You can buy a property to maintain, manage and rent out, with the stokvel members each taking a share of the rental income, or using this to lower the financial burden for the first few years of the loan.
 - In times of low lending interest rates, it makes sense to look at investing in other assets (such as property) to ensure that your investment is eating inflation (and you're not eroding the true worth of your savings).



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Cons

- If one person defaults on their monthly instalment, the account will go into arrears if the other members cannot settle the shortfall. This can negatively impact the credit rating of all participants, as everyone is jointly liable for the loan. The group's approach to this must be discussed and contracted upfront and, if possible, a slush fund invested to cater for occasional payment shortfalls.
- Fights and disputes between members of the stokvel may lead to the breakdown of a group, further complicated by co-ownership of a large long-term asset like a property.
- Stokvel scams are tricky to spot. Scammers often run pyramid schemes that are disguised as stokvels.
- People may want to pull out of the stokvel due to personal reasons and not be able to get their money back. Through the formalisation of the stokvel's constitution, this situation can be planned for upfront.
- Many stokvels are not formally registered or authorised by a financial services provider and therefore unregulated. As a result, fraud is common, despite being founded on the principles of trust and discipline.

Tucker advises that before investing in a property stokvel, to do credit score checks on all the participants which can be requested from each individual personally. "A credit score is important as it shows whether a person is a good candidate for your stokvel. It reveals how a person has handled debt in the past and whether or not they stuck to the terms and conditions of the deal."

Property stokvels are a good investment, but only if you have done your homework and taken the necessary precautions going in.